

**OWENDALE-GAGETOWN
AREA SCHOOL DISTRICT
HURON COUNTY, MICHIGAN**

**FINANCIAL REPORT
JUNE 30, 2007**

OWENDALE-GAGETOWN AREA SCHOOL DISTRICT

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REPORT OF INDEPENDENT AUDITORS

To The Board of Education
Owendale-Gagetown Area School District
Owendale and Gagetown, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owendale-Gagetown Area School District as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Owendale-Gagetown Area School District as of June 30, 2007, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 11, 2007 on our consideration of Owendale-Gagetown Area School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

(Continued)

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Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

REPORT OF INDEPENDENT AUDITORS

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Owendale-Gagetown Area School District's basic financial statements. The additional information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

October 11, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Owendale-Gagetown Area School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the district's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The General fund showed greater expenditures than revenue. Expenditures exceeded revenue by \$270,131. The General Fund balance has decreased to \$58,171.

The Athletic fund showed greater expenditures than revenues. Expenditures exceeded revenue by \$5,172. The Athletic Fund balance has decreased to \$3,000.

The Food Services fund showed greater expenditures than revenues. Expenditures exceeded revenue by \$3,492. This decreased the fund balance to \$1,439.

In total, District revenues exceeded \$1.9 and \$2.1 million dollars for the fiscal years ended June 30, 2007 and 2006, respectively. Spending over the same time period was \$2.2 and \$2.1 million dollars for the fiscal years ended June 30, 2007 and 2006, respectively.

During the fiscal year 2007, the District retired the 1999 Bond issue with a final principal payment of \$75,000. The District borrowed \$250,000 in state aid anticipation notes to help fund current operations.

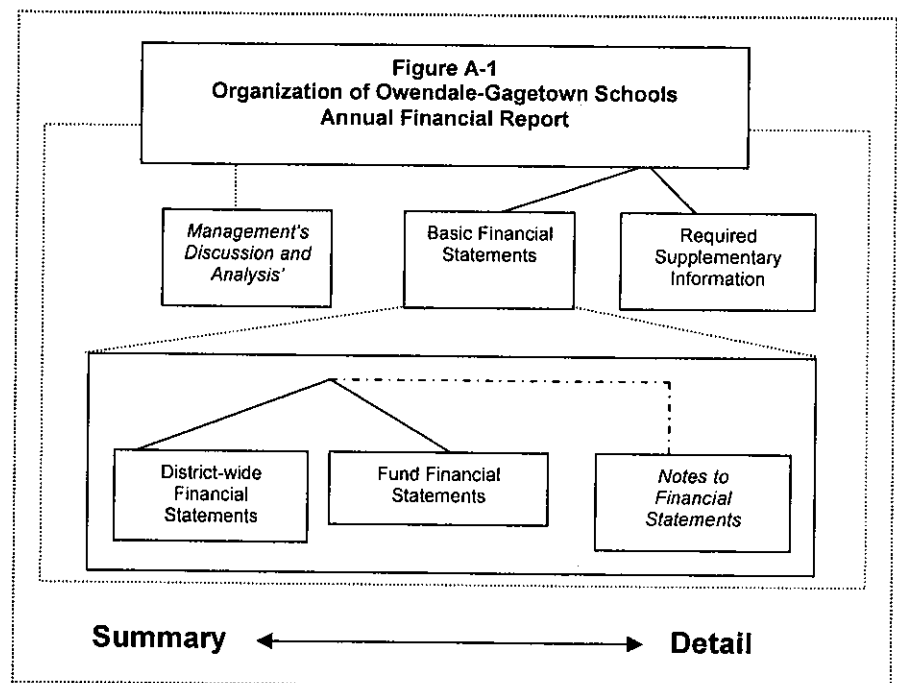
OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.

The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short term* as well as what remains for future spending.



Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

<p align="center">Figure A-2 Major Features of District-Wide and Fund Financial Statements</p>			
	<u>District-wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Owendale-Gagetown Area Schools funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets include all of the District's assets and liabilities. All of the revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities include:

Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

Government funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets decreased \$234,024 from \$711,285 to \$474,261 as of June 30, 2007. The decrease includes a prior period adjustment in the amount of \$2,314.

Table A-3
Owendale-Gagetown Area School District

The following summarizes the net assets of the Governmental activities:

	<u>2007</u>	<u>June 30,</u> <u>2006</u>
Assets		
Current and other assets	\$ 478,364	\$ 805,940
Capital assets, less accumulated depreciation	<u>538,010</u>	<u>434,842</u>
Total assets	<u>\$1,016,374</u>	<u>\$1,240,782</u>
Liabilities		
Current liabilities	\$ 459,280	\$ 497,942
Noncurrent liabilities	<u>82,833</u>	<u>33,869</u>
Total liabilities	<u>\$ 542,113</u>	<u>\$ 531,811</u>
Net assets:		
Invested in capital assets net of related debt	\$ 460,319	\$359,842
Restricted		62,218
Unrestricted	<u>13,942</u>	<u>286,911</u>
Total net assets	<u>\$ 474,261</u>	<u>\$708,971</u>

Table A-4
Change in Owendale-Gagetown Area School's Net Assets

The following summarizes the statement of activities:

	<u>2007</u>	<u>June 30,</u> <u>2006</u>
Revenues		
Program revenues		
Charges for services	\$ 64,878	\$ 49,780
Federal and state categorical grants	191,609	148,041
General revenues		
Property taxes	132,372	273,019
State aid -- unrestricted	1,460,012	1,495,718
Interest and investment earnings	11,720	15,565
Other	<u>54,997</u>	<u>98,135</u>
Total revenues	<u>1,915,588</u>	<u>2,080,258</u>
Expenses		
Instruction	1,277,801	1,237,811
Support services	656,280	642,671
Food services	102,768	99,983
Athletics	87,207	79,519
Interest on long-term debt	22,210	10,351
Unallocated depreciation	<u>6,346</u>	<u>10,560</u>
Total expenses	<u>2,152,612</u>	<u>2,080,895</u>
Change in net assets	<u>\$ (237,024)</u>	<u>\$ (637)</u>

District Governmental Activities

The financial performance of the District as a whole is reflected in its governmental funds. As the district completed the year, its governmental funds reported combined fund balances of \$62,610. This is a decrease of \$335,642 over the year before. The District has taken a proactive approach to its declining enrollment and stagnant state funding. During the fiscal year 2007, the District did the following:

- Continued to update the bus fleet with the purchase of two new buses.
- Upgraded computer equipment.
- Upgraded food service software to mealtime.
- Reduced staff through attrition, split staff duties.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund

The general fund had a significant loss this fiscal year ended June 30, 2007. The loss of \$270,131 is due to a decrease of revenue of \$163,015 and an increase in expenditures of \$45,387. The primary change in revenue was in 2006 the District sold the elementary building in Gagetown for \$74,371. In 2007, local revenue is down by \$81,578 and state revenue is down by \$35,706, while federal revenue is up by \$23,382. The primary change in expenditures is an increase in employee benefits and utility costs.

Debt Service Fund

The debt service fund collected \$12,194 in property taxes. This was the last year for the 1999 Bond issue. The expenditures for 2007 were \$75,000 principal, \$3,675 interest expense and \$298 paying agent fees. The balance in the debt service fund in the amount of \$2,228 was transferred to the general fund.

Athletic Fund

Revenue is up \$3,843 from 2006.

Expenditures are up \$9,284 from 2006. The General Fund transferred \$53,242 to the Athletic Fund to cover salary and benefit costs.

Food Service Fund

Local revenue increased \$9,882; Federal reimbursements increased \$2,401 while state reimbursements increased \$4,921. The overall change in revenue was an increase of \$17,204 over 2006.

On the expenditure side, salary and benefit costs rose while food cost also increased. Overall expenditures increased \$10,329 from 2006.

The Food Service Fund ended the year with an increase in fund balance of \$1,849. This includes a prior period adjustment for corrections in the amount of \$5,341.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital asset purchases by the District in 2007 consisted of two new school buses for \$122,008, playground equipment for \$16,272 (funded by a grant and local donations), and various other equipment for \$17,246. Capital spending totaled \$155,526 in fiscal year 2007.

Table A-5
Owendale-Gagetown Area School District's Capital Assets

	<u>2007</u>	<u>2006</u>
Land and improvements	\$ 158,989	\$ 158,989
Buildings and improvements	1,120,026	1,120,026
Vehicles and buses	268,263	218,772
Furniture and equipment	<u>503,561</u>	<u>470,043</u>
Totals	<u>\$2,050,839</u>	<u>\$1,967,830</u>

Long-term Debt

At year end, the District paid off their 1999 bond issue. The District has bus notes payable in equal annual installments. The balance at June 30, 2007 was \$73,094.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the State of Michigan has not finalized the student foundation allowance for 2007-08. It is unlikely there will be an increase in foundation due to the economic condition of the State of Michigan.

The school district suffered a significant loss in 2007. The district is continuing to take drastic measures to ensure the existence of the school district as follows:

- There is a spending freeze for all nonessential purchases.
- The blended pupil count from last year (204) to this year (218) increased by 14 pupils. This will be an approximate increase in state aid foundation of \$100,000.
- Support staff has been reduced by 3 percent.
- Secretarial staff reduced by one full-time position.
- Custodial staff reduced by one-half position.
- Superintendent position remains split for principal and superintendent duties.

The state has reduced the MPSERS retirement rate for 2007-08 from 17.74% to 16.72%. This should save the District approximately \$10,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Owendale-Gagetown Area School District, 7166 Main Street, Owendale, MI 48754.

BASIC FINANCIAL STATEMENTS

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	ASSETS	GOVERNMENTAL ACTIVITIES
CURRENT ASSETS:		
Cash and deposits		\$ 187,316
Taxes receivable		826
Accounts receivable		286,072
Inventory		1,361
Prepaid expenses		2,790
TOTAL CURRENT ASSETS		<u>478,364</u>
NON-CURRENT ASSETS:		
Depreciated capital assets		2,050,839
Less: Accumulated depreciation		<u>(1,512,829)</u>
TOTAL NON-CURRENT ASSETS		538,010
TOTAL ASSETS		<u><u>\$ 1,016,374</u></u>

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF NET ASSETS
JUNE 30, 2007**

	GOVERNMENTAL ACTIVITIES
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Accounts payable	\$ 9,908
Accrued salaries and wages	101,301
Accrued teacher benefits	43,607
Accrued interest payable	11,650
Deferred revenue	2,520
State aid note payable	250,000
Current portion of long-term obligations	40,295
TOTAL CURRENT LIABILITIES	459,280
NON-CURRENT LIABILITIES:	
Bus and van notes payable	77,691
Compensated absences	45,436
Less: Current portion of long-term obligations	(40,295)
TOTAL NON-CURRENT LIABILITIES	82,833
TOTAL LIABILITIES	542,113
NET ASSETS:	
Invested in capital assets, net of related debt	460,319
Unrestricted	13,942
TOTAL NET ASSETS	474,261
TOTAL LIABILITIES AND NET ASSETS	\$ 1,016,374

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007**

FUNCTIONS/PROGRAMS	EXPENSES	Program Revenues		TOTAL GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 1,277,801	\$ 1,370	\$ 123,550	\$ (1,152,882)
Support services	656,280		656	(655,624)
Food service	102,768	38,880	67,403	3,516
Athletics	87,207	24,628		(62,579)
Interest on long-term obligations	22,210			(22,210)
Depreciation - Unallocated	6,346			(6,346)
Total governmental activities:	<u>\$ 2,152,612</u>	<u>\$ 64,878</u>	<u>\$ 191,609</u>	<u>(1,896,125)</u>
General revenues:				
Property taxes, levied for general purposes				120,178
Property taxes, levied for debt service				12,194
State aid				1,460,012
Investment earnings				11,720
Sale of assets				3,028
Miscellaneous				51,969
Total General Revenues				<u>1,659,101</u>
CHANGE IN NET ASSETS				<u>(237,024)</u>
NET ASSETS - beginning of year				708,971
Prior period adjustment				2,314
NET ASSETS - end of year				<u>\$ 474,261</u>

The accompanying notes are an integral part of the financial statements.

OWENDALE-GAGETOWN AREA SCHOOLS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>GENERAL</u>	OTHER NONMAJOR GOVERNMENTAL <u>FUNDS</u>	TOTAL GOVERNMENTAL <u>FUNDS</u>
ASSETS			
Cash - Checking	\$ 60,566	\$ 3,132	\$ 63,698
Cash - Savings	123,618		123,618
Taxes receivable	484		484
Accounts receivable	286,072		286,072
Inventory		1,361	1,361
Due from other funds	2,188	2,134	4,322
Prepaid expenses	2,790		2,790
TOTAL ASSETS	<u>\$ 475,717</u>	<u>\$ 6,627</u>	<u>\$ 482,344</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES:			
Accounts payable	\$ 9,908		\$ 9,908
State aid note payable	250,000		250,000
Due to other funds	2,134	\$ 2,188	4,322
Accrued salaries and wages	101,301		101,301
Accrued teacher benefits	43,607		43,607
Accrued interest payable	8,076		8,076
Deferred revenue	2,520		2,520
TOTAL LIABILITIES	<u>417,546</u>	<u>2,188</u>	<u>419,734</u>
FUND BALANCE:			
Unreserved	<u>58,171</u>	<u>4,439</u>	<u>62,610</u>
TOTAL FUND BALANCE	<u>58,171</u>	<u>4,439</u>	<u>62,610</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 475,717</u>	<u>\$ 6,627</u>	<u>\$ 482,344</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
GOVERNMENTAL ACTIVITIES NET ASSETS
JUNE 30, 2007**

TOTAL GOVERNMENTAL FUND BALANCES			\$ 62,610
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.			
	The cost of capital assets is	2,050,839	
	Accumulated depreciation is	<u>(1,512,829)</u>	538,010
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are not reported in the funds.			
			342
Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:			
	Bus and van notes payable	77,691	
	Compensated absences	45,436	
	Accrued interest payable on long-term obligations	<u>3,574</u>	(126,701)
NET ASSETS - GOVERNMENTAL ACTIVITIES			<u>\$ 474,261</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>GENERAL</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:			
Local sources:			
Taxes	\$ 119,836	\$ 12,194	\$ 132,030
Food service		106,291	106,291
Athletics		24,628	24,628
Special education billback	20,781		20,781
Reimbursements and refunds	17,310		17,310
Other local revenue	26,961		39,155
State sources:			
State school aid-Restricted	136,522		136,522
Other state aid revenue	1,323,490		1,323,490
Federal sources	124,206		124,206
TOTAL REVENUE	<u>1,769,105</u>	<u>143,113</u>	<u>1,912,218</u>
EXPENDITURES:			
Current:			
Education:			
Instruction	1,280,637		1,280,637
Supporting services	647,070		647,070
Food service		109,783	109,783
Athletics		83,042	83,042
Debt service:			-
Principal repayment	48,914	75,000	123,914
Interest and fiscal charges	14,629	3,973	18,602
TOTAL EXPENDITURES	<u>1,991,250</u>	<u>271,798</u>	<u>2,263,048</u>
EXCESS OF REVENUE (UNDER)			
EXPENDITURES	<u>(222,145)</u>	<u>(128,685)</u>	<u>(350,830)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in from other funds	2,228	(2,228)	-
Operating transfers to other funds	(53,242)	53,242	-
Sale of assets	3,028		3,028
TOTAL OTHER FINANCING SOURCES (USES)	<u>(47,986)</u>	<u>51,014</u>	<u>3,028</u>
EXCESS OF REVENUE AND OTHER SOURCES (UNDER) EXPENDITURES OTHER USES	<u>(270,131)</u>	<u>(77,671)</u>	<u>(347,802)</u>
FUND BALANCE - JULY 1	328,272	69,980	398,252
PRIOR PERIOD ADJUSTMENTS	30	12,130	12,160
FUND BALANCE - JUNE 30	<u>\$ 58,171</u>	<u>\$ 4,439</u>	<u>\$ 62,610</u>

The accompanying notes are an integral part of the financial statements.

OWENDALE-GAGETOWN AREA SCHOOLS

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS

\$ (347,802)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Depreciation Expense	(55,841)	
Capital Outlays	<u>33,518</u>	(22,323)

Property taxes receivable will not be collected for several months after the end of the District's fiscal year, therefore, they are not considered as "available" revenues in the governmental funds and are, instead, counted as deferred tax revenues. They are, however, recorded as revenues in the statement of activities.

Taxes receivable - beginning of year		
Taxes receivable - end of year	<u>342</u>	342

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

75,000

Bus and van note repayments affect long term liabilities in the statement of net assets and does not affect the statement of activities.

Repayment of bus note principal	48,914	
Repayment of van note principal	<u>8,733</u>	57,647

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

Accrued interest payable - beginning of year	613	
Accrued interest payable - end of year	<u>(3,574)</u>	(2,961)

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

Accrued compensated absences - beginning of year	48,509	
Accrued compensated absences - end of year	<u>(45,436)</u>	3,073

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ (237,024)

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007**

	AGENCY FUNDS
ASSETS	
Cash and equivalents	\$ 28,702
TOTAL ASSETS	<u>\$ 28,702</u>
LIABILITIES:	
Due to student groups	\$ 28,702
TOTAL LIABILITIES	<u>\$ 28,702</u>

The accompanying notes are an integral
part of the financial statements.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Owendale-Gagetown Area School District is a consolidated school system located in Huron County, Michigan. The School has approximately 204 students in grades kindergarten through twelve. The School operates under a seven person elected Board of Education.

The basic financial statements of the Owendale-Gagetown Area School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

The Reporting Entity:

The Owendale-Gagetown Area School District ("District") is governed by the Owendale-Gagetown Area School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type activities. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, taxes, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Government-wide and Fund Financial Statements: (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, state sources, intermediate district sources, interest income and other revenues.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Other Non-major Funds:

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service and athletic activities in the special revenue funds.

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation:

Other Non-major Funds:

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual method of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

State Revenue (Continued)

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds which are not expended by the close of the fiscal year are recorded as deferred revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Other Accounting Policies:

Cash and Equivalents

Cash and equivalents include amounts in demand deposits and certificates of deposit.

Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is September 15 and February 15, after which time the bill becomes delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund – Non-homestead	18.00
Debt service fund – Homestead and non-homestead	.23

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Inventory

Inventory in the Special Revenue Fund consists of food and donated commodities (received as federal financial assistance from the U.S. Department of Agriculture (USDA), which were on hand at year-end. The commodities are valued at USDA suggested values. Inventories for commodities are recorded as revenue when received and expenditures when utilized.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Capital Assets (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation of all assets is provided on the straight-line basis over the estimated useful lives as follows:

Land Improvements	20	years
Buildings and Improvements	20 – 50	years
Furniture and Equipment	5 – 20	years
Vehicles and Buses	8	years

The District's capitalization policy is to capitalize assets with an initial individual cost of \$500 or more. Group purchases are evaluated on a case-by-case basis.

Compensated Absences

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with State law, prior to June 1, the Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The Board of Education requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to July 1, the budget is legally enacted through passage of a budget resolution.
4. Formal budgetary integration is employed as a management control device during the year for the General, Food Service and Athletic Funds. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. Appropriations lapse at the end of each fiscal year.
6. The Board of Education may authorize supplemental appropriations during the year. The Board of Education authorized budget amendments during the fiscal year at their regular scheduled board meetings.

NOTE 3 – DEPOSITS AND INVESTMENTS:

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The District does not have a deposit or investment policy.

(Continued)

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

Government-wide Financial Statement Captions:

Cash - checking	\$ 63,698
Cash - savings	123,618

Statement of Fiduciary Net Assets

Cash and cash equivalents	<u>28,702</u>
Total	<u>\$216,018</u>

Notes to Financial Statements:

Deposits	\$215,968
Cash on hand	<u>50</u>
Total	<u>\$216,018</u>

The carrying amount of cash and deposits with financial institutions of the District amounted to \$216,018 at June 30, 2007. The total bank balance as of the same date was \$256,714. Deposits with financial institutions are categorized as follows:

Amount insured by the FDIC	\$139,437
Uncollateralized/Uninsured	<u>117,277</u>
Total deposits with financial institutions	<u>\$ 256,714</u>

All deposits categorized as uncollateralized are the property of the District.

The amount of uncollateralized deposits throughout the fiscal year did not significantly exceed the amount of uncollateralized deposits at June 30, 2007.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

<u>FUND</u>	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$2,188	\$2,134
Special Revenue Fund:		
Food Service	<u>2,134</u>	<u>2,188</u>
TOTAL	<u>\$4,322</u>	<u>\$4,322</u>

For the fiscal year ended June 30, 2007, the Food Service fund owed the General Fund for salaries and benefit payments and the General Fund owed the Food Service Fund for state categorical money 31d.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 5 - RECEIVABLES:

Receivables at June 30, 2007 consist of the following:

Accounts receivable	
Grants receivable	\$ 32,679
Receivable – Local ISD's	1,725
Universal Service Fund	4,621
State Aid	<u>247,047</u>
	<u>\$286,072</u>

No allowance for doubtful accounts is considered necessary.

NOTE 6 – CAPITAL ASSETS:

A summary of changes in the District's capital assets follows:

	<u>BALANCE</u> <u>JULY 1, 2006</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2007</u>
Capital assets				
Land improvements	\$ 158,989			\$ 158,989
Buildings and improvements	1,120,026			1,120,026
Vehicles and buses	218,772	\$122,008	\$72,517	268,263
Furniture and equipment	<u>470,043</u>	<u>33,518</u>		<u>503,561</u>
Subtotal	<u>1,967,830</u>	<u>155,526</u>	<u>72,517</u>	<u>2,050,839</u>
Accumulated depreciation:				
Land improvements	74,792	5,708		80,500
Buildings and improvements	877,362	9,359		886,721
Vehicles and buses	177,181	22,736	72,517	127,400
Furniture and equipment	<u>400,170</u>	<u>18,038</u>		<u>418,208</u>
	<u>1,529,505</u>	<u>55,841</u>	<u>72,517</u>	<u>1,512,829</u>
Net capital assets	<u>\$ 438,325</u>	<u>\$99,685</u>	<u>\$ -</u>	<u>\$ 538,010</u>

The beginning balance for accumulated depreciation includes a prior period adjustment of \$3,483.

Depreciation expense was charged to programs of the primary government as follows:

Instruction	\$18,171
Support Services	25,181
Food Service	535
Athletics	5,608
Unallocated depreciation	<u>6,346</u>
Total depreciation	<u>\$55,841</u>

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 7 - EXPENDITURES IN EXCESS OF APPROPRIATIONS:

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2007, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
General fund			
Preschool	\$ 38,016	\$ 55,715	\$17,699
High school	646,605	649,407	2,802
Special education	87,172	88,227	1,055
Compensatory education	63,423	63,681	258
At risk	47,306	47,407	101
Improvement of instruction	32,365	32,369	4
Guidance services	23,732	23,948	216
Business services	3,166	8,166	5,000
Debt service	5,740	14,629	8,889
Transfers to other funds	47,309	53,242	5,933
Athletic fund	82,869	83,042	173
Food service fund	109,405	109,783	378

NOTE 8 – NOTE PAYABLE:

At June 30, 2007, the District has a \$250,000 revenue note (state-aid note) outstanding. The note, which has an interest rate of 3.68%, matures August 18, 2007. The note is secured by the full faith and credit of the District as well as pledged state aid.

<u>BALANCE</u>			<u>BALANCE</u>
<u>JUNE 30, 2006</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>JUNE 30, 2007</u>
\$259,000	\$250,000	\$259,000	\$250,000

NOTE 9 - LONG-TERM DEBT:

Long-term obligations currently outstanding are as follows:

Bus contract payable at June 30, 2007 is comprised of the following item: \$122,008 June 2, 2006, bus contract due in equal annual principal and interest installments of \$26,785 through June 2, 2010. Interest rate 4.89%.

\$ 73,094

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 9 - LONG-TERM DEBT: (CONTINUED)

Van note payable to Daimler Chrysler Financial Services for a 2005 Dodge Van, due in monthly installments of \$782 (includes principal and interest). The note matures on December 12, 2007. The note carries an interest rate of 6.9% per annum.

4,597

Obligation under contract for compensated absences

45,436

Total general long-term debt

\$123,127

The following is a summary of the debt transactions of the School District for the year ended June 30, 2007:

	BALANCE JUNE 30, 2006	ADDITIONS	PAYMENTS	BALANCE JUNE 30, 2007	DUE WITHIN ONE YEAR
Compensated absences	\$ 48,509		\$ 3,073	\$ 45,436	\$12,487
Bus contract		\$122,008	48,914	73,094	23,211
Van payable		13,330	8,733	4,597	4,597
1999 Bond issue	<u>75,000</u>		<u>75,000</u>		
	<u>\$123,509</u>	<u>\$135,338</u>	<u>\$135,720</u>	<u>\$123,127</u>	<u>\$40,295</u>

The annual requirements to amortize all applicable debt outstanding as of June 30, 2007, including interest payments of \$7,354 are as follows:

Years ending June 30,	Total
2008	\$ 31,475
2009	26,785
2010	<u>26,785</u>
	85,045

Obligation under contract for compensated absences

45,436

Total general long-term debt and interest

\$130,481

NOTE 10 – INTERFUND TRANSFERS:

During the year ended June 30, 2007, the general fund transferred \$53,242 to the athletic fund to cover wages and employee benefits. During the year ended June 30, 2007 the debt service fund was closed and transferred the balance of \$2,228 to the general fund.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 11 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Plan Description – The District contributes to the Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (517) 322-5103.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the year ended June 30, 2007, the rate was 16.34% through September 2006 and 17.74% for October 1, 2006 through June 30, 2007. The contribution requirements of the plan members and the District are established and may be amended by the MPERS Board of Trustee. The District contributions to MPERS for the years ended June 30, 2007, 2006, and 2005 were approximately \$180,670, \$169,752 and \$140,703, respectively, equal to the required contribution for the year.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Postemployment Benefits – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 12 - RISK MANAGEMENT:

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each risk pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE 13 - PRIOR PERIOD:

Prior period adjustments were recorded in both the fund and the government-wide financial statements. In the general fund a correction was made to clear out amounts relating to debt service. The prior period adjustment increased the general fund balance by \$30. An adjustment was also made to the food service and debt retirement funds to correct prior year errors. The adjustment to food service was \$5,341 while the debt retirement amount was \$6,789. The overall effect on the statement of activities was an increase in net assets in the amount of \$2,314.

NOTE 14 - SUBSEQUENT EVENTS:

During the year ended June 30, 2007, the District had a state aid note payable outstanding for \$250,000 with the Michigan Municipal Bond Authority, with a final maturity of August 18, 2007. The note payable is to be paid with the proceeds of the state aid payment to be received in August 2007. If the state aid payment by the District is less than the principal and interest due on the note on August 18, 2007, the note must be paid with other sources.

Subsequent to year-end, the District entered into an agreement to borrow \$350,000 using a state aid note bearing interest at 3.68% and maturing August 20, 2008. The note is secured by the full faith and credit of the District as well as pledged state aid.

REQUIRED SUPPLEMENTARY INFORMATION

OWENDALE-GAGETOWN AREA SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUE:				
Local sources:				
Taxes	\$ 124,140	\$ 119,350	\$ 119,836	\$ 486
Special education billback	73,000	21,000	20,781	(219)
Reimbursements and refunds	16,800	13,351	17,310	3,959
Other local revenue	34,600	24,483	26,961	2,478
State sources:				
State school aid-Restricted	141,180	141,180	136,522	(4,658)
Other state aid revenue	1,432,522	1,323,490	1,323,490	0
Federal sources	125,839	110,828	124,206	13,378
TOTAL REVENUE	<u>1,948,081</u>	<u>1,753,682</u>	<u>1,769,105</u>	<u>15,424</u>
EXPENDITURES:				
Current:				
Education:				
Instruction	1,365,406	1,262,082	1,280,637	(18,555)
Supporting services	666,938	654,157	647,070	7,087
Debt service:				
Principal repayment	22,129	48,914	48,914	(0)
Interest and fiscal charges		5,740	14,629	(8,889)
TOTAL EXPENDITURES	<u>2,054,473</u>	<u>1,970,893</u>	<u>1,991,250</u>	<u>(20,357)</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES	<u>(106,392)</u>	<u>(217,211)</u>	<u>(222,145)</u>	<u>(4,934)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in from other funds		2,268	2,228	(40)
Operating transfers to other funds	(61,460)	(47,309)	(53,242)	(5,933)
Sale of assets		3,028	3,028	
TOTAL OTHER FINANCING (USES)	<u>(61,460)</u>	<u>(42,013)</u>	<u>(47,986)</u>	<u>(5,973)</u>
EXCESS OF REVENUE (UNDER) EXPENDITURES AND OTHER USES	<u>(167,852)</u>	<u>(259,224)</u>	<u>(270,131)</u>	<u>(10,907)</u>
FUND BALANCE - JULY 1	328,272	328,272	328,272	
PRIOR PERIOD ADJUSTMENTS		30	30	
FUND BALANCE - JUNE 30	<u>\$ 160,420</u>	<u>\$ 69,078</u>	<u>\$ 58,171</u>	<u>\$ (10,907)</u>

ADDITIONAL INFORMATION

OWENDALE-GAGETOWN AREA SCHOOLS

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007**

	<u>FOOD SERVICE</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 132	\$ 3,000	\$ 3,132
Due from other funds	2,134		2,134
Inventory	1,361	-	1,361
TOTAL ASSETS	<u>\$ 3,627</u>	<u>\$ 3,000</u>	<u>\$ 6,627</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES			
Due to other funds	\$ 2,188		\$ 2,188
TOTAL LIABILITIES	2,188		2,188
 FUND BALANCE	 1,439	 \$ 3,000	 4,439
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,627</u>	<u>\$ 3,000</u>	<u>\$ 6,627</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007**

	<u>FOOD SERVICE</u>	<u>ATHLETIC ACTIVITIES</u>	<u>DEBT RETIREMENT</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUE:				
Local sources:				
Sale of meals	\$ 32,086			\$ 32,086
Miscellaneous	6,794	\$ 9,319		16,113
Admissions and entry fees		15,309		15,309
Other local tax revenue			\$ 12,194	12,194
Earnings on investments	8	-		8
Total local sources	38,888	24,628	12,194	75,710
State sources	7,825			7,825
Federal sources:				
Reimbursements	55,756			55,756
Commodities	3,822			3,822
TOTAL REVENUE	<u>106,291</u>	<u>24,628</u>	<u>12,194</u>	<u>143,113</u>
EXPENDITURES:				
Food	54,472			54,472
Salaries and wages	34,250	41,026		75,276
Employee benefits	8,403	10,284		18,687
Officials		11,319		11,319
Conferences & workshops	185			185
Dues & fees	733	2,250		2,983
Local travel		424		424
Supplies	2,335	10,916		13,251
Repairs	1,498	40		1,538
Transportation	26	3,030		3,056
Miscellaneous	164	2,011		2,175
Debt service			78,973	78,973
Capital outlay	7,717	1,742	-	9,459
TOTAL EXPENDITURES	<u>109,783</u>	<u>83,042</u>	<u>78,973</u>	<u>271,798</u>
EXCESS OF REVENUE (UNDER)				
EXPENDITURES	<u>(3,492)</u>	<u>(58,414)</u>	<u>(66,779)</u>	<u>(128,685)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfer from other funds		53,242		53,242
Operating transfer to other funds		-	(2,228)	(2,228)
TOTAL OTHER FINANCING SOURCES (USES):		<u>53,242</u>	<u>(2,228)</u>	<u>51,014</u>
EXCESS OF REVENUE AND OTHER SOURCES				
(UNDER) EXPENDITURES	<u>(3,492)</u>	<u>(5,172)</u>	<u>(69,007)</u>	<u>(77,671)</u>
FUND BALANCE (DEFICIT) - JULY 1	(410)	8,172	62,218	69,980
PRIOR PERIOD ADJUSTMENT	5,341		6,789	12,130
FUND BALANCE - JUNE 30	<u>\$ 1,439</u>	<u>\$ 3,000</u>	<u>\$ -</u>	<u>\$ 4,439</u>

OWENDALE-GAGETOWN AREA SCHOOLS

SCHEDULES OF GENERAL FUND REVENUE

	YEARS ENDED JUNE 30,	
	<u>2007</u>	<u>2006</u>
REVENUE FROM LOCAL SOURCES:		
Property tax:		
Current tax levy	\$ 118,784	\$ 114,168
Delinquent taxes	1,051	2,126
Tuition	1,370	-
Earnings on investments	11,712	15,258
Rentals	860	570
Local donations	8,233	13,150
Special education billback	20,781	73,837
Reimbursements and refunds	17,310	37,951
Miscellaneous	4,785	9,405
TOTAL REVENUE FROM LOCAL SOURCES	<u>184,887</u>	<u>266,465</u>
REVENUE FROM STATE SOURCES:		
State aid -Restricted	136,522	153,571
Other state aid revenue	1,323,490	1,342,146
TOTAL REVENUE FROM STATE SOURCES	<u>1,460,012</u>	<u>1,495,718</u>
REVENUE FROM FEDERAL SOURCES:		
Federal aid, restricted-		
Received through the State:		
Title I grant	62,361	77,360
Title V grant	664	77
Title II, Part A -Improving Teacher Quality	25,004	9,421
Title II, Part D -Tech. Literacy Challenge	656	2,438
IDEA Part B	928	-
Received through ISD:		
RAISE, IDEA, & MiBLsi grants	8,215	1,047
Medicaid service coordination	9,853	8,913
Rural education achievement grant	5,124	1,568
USDA Distance Learning	5,801	-
USDA Preschool Grant	5,600	-
TOTAL REVENUE FROM FEDERAL SOURCES	<u>124,206</u>	<u>100,824</u>
OTHER FINANCING SOURCES:		
Sale of assets	3,028	74,371
Transfer from other funds	2,228	-
TOTAL OTHER FINANCING SOURCES	<u>5,256</u>	<u>74,371</u>
TOTAL REVENUE AND OTHER FINANCING SOURCES	<u>\$ 1,774,362</u>	<u>\$ 1,937,377</u>

OWENDALE-GAGETOWN AREA SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

	YEARS ENDED JUNE 30,	
	<u>2007</u>	<u>2006</u>
INSTRUCTION:		
Basic programs:		
Preschool:		
Purchased services	\$ 33,889	
Teaching supplies	5,554	\$ 32,976
Capital outlay	16,272	-
Total preschool	<u>55,715</u>	<u>32,976</u>
Elementary:		
Teacher salaries	212,920	215,984
Substitute teacher salaries	6,622	10,021
Employee benefits	116,668	116,325
Audio-visual repairs	205	-
Textbooks	1,051	5,000
Teaching supplies and materials	5,710	5,746
Miscellaneous supplies	655	2,751
Total elementary	<u>343,830</u>	<u>355,827</u>
High school:		
Teacher salaries	362,613	319,998
Substitute teacher salaries	23,208	23,231
Other nonathletic salaries	12,040	14,050
Employee benefits	216,456	187,534
Board paid TSA	6,639	6,586
Local travel	130	-
Dual enrollment	6,038	2,080
Audio-visual repairs	30	236
Teaching supplies and materials	4,125	2,937
Capital outlay	4,116	101
Textbooks	7,562	2,636
Band supplies	4,496	3,050
Miscellaneous supplies	1,953	1,711
Total high school	<u>649,407</u>	<u>564,149</u>
Added needs:		
Special education:		
Teacher salaries	37,390	81,965
Substitute teacher salaries	17,375	16,719
Employee benefits	27,241	43,817
Workshops and conferences	392	
Teaching supplies and materials	5,450	7,846
Medicaid coordination	380	4,666
Total special education	<u>88,227</u>	<u>155,013</u>

OWENDALE-GAGETOWN AREA SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

	YEARS ENDED	
	JUNE 30,	
	<u>2007</u>	<u>2006</u>
INSTRUCTION: (CONTINUED)		
Added needs: (Continued)		
Compensatory education:		
Teacher salaries	15,375	41,876
Teacher aide salaries	34,603	16,943
Employee benefits	11,040	15,213
Local travel and conferences	1,257	1,079
Supplies and materials	1,041	834
Title V expenditures	365	-
Total compensatory education	<u>63,681</u>	<u>75,945</u>
At risk education:		
Counselor and nurse salaries	11,260	44,858
Teacher aide salaries	25,138	-
Employee benefits	9,246	9,624
Teaching supplies	973	953
Miscellaneous expense	790	-
Total at risk education	<u>47,407</u>	<u>55,435</u>
Improvement of instruction:		
REAP technical training	3,019	3,673
Workshops and conferences	29,350	12,206
Total improvement of instruction	<u>32,369</u>	<u>15,878</u>
TOTAL INSTRUCTION	<u>1,280,637</u>	<u>1,255,224</u>
SUPPORTING SERVICES:		
Pupil services:		
Guidance services:		
Guidance counselor salaries	18,940	17,684
Employee benefits	5,005	18,252
Office supplies	2	448
Total guidance services	<u>23,948</u>	<u>36,384</u>
General administration:		
Board of education:		
Board salaries	2,283	4,095
Legal fees	3,628	6,353
Auditing and accounting services	10,500	10,567
Workshops and conferences	661	850
Election expense	910	-
Dues and fees	812	-
Total board of education	<u>18,793</u>	<u>21,865</u>

OWENDALE-GAGETOWN AREA SCHOOLS
SCHEDULES OF GENERAL FUND EXPENDITURES

	YEARS ENDED JUNE 30,	
	<u>2007</u>	<u>2006</u>
SUPPORTING SERVICES: (CONTINUED)		
Executive administration:		
Superintendent salary	41,000	45,951
Secretarial salaries	16,432	14,026
Employee benefits	37,375	24,848
Consulting services	500	2,500
Other technical services	6,820	-
Local travel	1,125	983
Telephone	2,103	1,453
Office supplies	2,782	2,608
Miscellaneous supplies	46	711
Dues and fees	1,660	1,368
Total executive administration	<u>109,843</u>	<u>94,449</u>
School administration:		
Principal salaries	42,272	39,877
Secretarial salaries	37,297	38,921
Employee benefits	27,349	29,980
Other technical services	300	300
Local travel	13	-
Telephone	3,614	2,594
Software license	1,593	-
Office supplies	4,431	4,477
Dues and fees	100	100
Total school administration	<u>116,969</u>	<u>116,250</u>
Business administration:		
Fiscal services:		
Accounting salaries	16,456	17,422
Employee benefits	3,712	4,111
Total fiscal services	<u>20,168</u>	<u>21,533</u>
Technology:		
USDA grant technology	8,136	-
Technical equipment repair	11,058	6,768
Capital outlay	935	-
Total technology	<u>20,130</u>	<u>6,768</u>
Other business services:		
Insurance-Errors and omissions	7,905	3,058
Insurance-Bond and other	161	1,293
Other miscellaneous expenses	100	100
Total other business services	<u>8,166</u>	<u>4,451</u>

OWENDALE-GAGETOWN AREA SCHOOLS

SCHEDULES OF GENERAL FUND EXPENDITURES

	YEARS ENDED	
	JUNE 30,	
	<u>2007</u>	<u>2006</u>
SUPPORTING SERVICES: (CONTINUED)		
Operation and maintenance of plant:		
Custodian salaries	55,329	56,885
Employee benefits	45,680	49,953
Workshops	75	62
Telephone	675	674
Heating fuel	31,381	30,446
Electricity	40,317	35,194
Water and sewage	7,602	6,169
Waste and trash disposal	2,502	1,421
Internet	7,200	6,100
Insurance-Property	10,736	11,225
Repairs-Land and buildings	2,471	8,736
Repairs-Equipment	10,230	13,991
Grounds-Mower	1,002	238
Miscellaneous expenses	956	290
Custodial supplies	6,242	4,546
Capital outlay	2,971	18,354
Total operation and maintenance of plant	<u>225,368</u>	<u>244,282</u>
Pupil transportation:		
Transportation supervisor salary	6,919	7,019
Bus driver salaries	23,379	29,784
Special run salaries	953	1,546
Substitute driver salaries	2,688	1,551
Secretarial salaries	5,247	5,343
Contracted services	10,756	2,819
Employee benefits	10,371	11,683
Workshops	207	-
Bus driver physicals	215	-
Local travel	362	415
Telephone	259	286
Insurance	2,856	2,978
Repairs and maintenance	11,842	16,067
Gasoline, oil & grease	15,730	17,384
Tires	476	452
Vehicle repair parts	107	-
Other supplies	88	1,076
Miscellaneous expenses	613	-
Capital outlay	9,600	6,563
Total pupil transportation	<u>102,667</u>	<u>104,968</u>
Staff and personnel services:		
IDEA part B CIMS	802	-
Miscellaneous staff services	217	154
Total staff and personnel services	<u>1,019</u>	<u>154</u>
TOTAL SUPPORTING SERVICES	<u>647,070</u>	<u>651,103</u>

OWENDALE-GAGETOWN AREA SCHOOLS**SCHEDULES OF GENERAL FUND EXPENDITURES**

	YEARS ENDED	
	JUNE 30,	
	<u>2007</u>	<u>2006</u>
DEBT SERVICE:		
Principal retirement:		
Bus contracts	48,914	-
Total principal retirement	<u>48,914</u>	<u>-</u>
Interest and fiscal charges:		
Bus contracts	13,545	3,628
Taxes abated and written off	1,084	-
Total interest and fiscal charges	<u>14,629</u>	<u>3,628</u>
TOTAL DEBT SERVICE	<u>63,543</u>	<u>3,628</u>
TOTAL EXPENDITURES	<u>1,991,250</u>	<u>1,909,955</u>
OTHER FINANCING USES:		
Operating transfers to other funds	53,242	89,151
TOTAL OTHER FINANCING USES	<u>53,242</u>	<u>89,151</u>
TOTAL EXPENDITURES AND		
OTHER FINANCING USES	<u>\$ 2,044,492</u>	<u>\$ 1,999,106</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**STUDENT ACTIVITY FUND
STATEMENT OF RECEIPTS AND DISBURSEMENTS
AND CHANGE IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007**

	FUND BALANCE			FUND BALANCE
	<u>JULY 1, 2006</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>JUNE 30, 2007</u>
HIGH SCHOOL:				
Class of 2006	\$ 1,601		\$ 1,601	
Class of 2007	3,133	\$ 2,306	5,433	\$ 6
Class of 2008	2,719	14,896	11,748	5,867
Class of 2009	1,270	2,427	207	3,490
Class of 2010	963	352	131	1,184
Graduated class		2,819	100	2,719
ACP	1,678		251	1,427
Athletic donations	131		38	93
Band	2,141	22,696	23,142	1,695
BPA	(4)	4		
Cheerleading	18	960	835	143
Drama	597			597
Interest	435	65	500	-
Miscellaneous	8,016	14,378	21,917	477
National Honor Society	57	998	949	106
Quilt 1st and 2nd	16		16	-
Resource room store	192		53	139
Spanish club	150	177		327
Student council	227	1,130	1,177	180
Yearbook	3,206	10,504	9,866	3,843
TOTAL HIGH SCHOOL	<u>26,546</u>	<u>73,712</u>	<u>77,964</u>	<u>22,294</u>
MIDDLE SCHOOL:				
Class of 2010				
Class of 2011	326	97	18	405
Class of 2012	126	394	150	370
Class of 2013		389		389
Class of 2014	-	3,552	3,000	552
TOTAL MIDDLE SCHOOL	<u>452</u>	<u>4,432</u>	<u>3,168</u>	<u>1,716</u>
ELEMENTARY SCHOOL:				
Activity fund	4,852	10,525	10,685	4,692
TOTALS	<u>\$ 31,850</u>	<u>\$ 88,669</u>	<u>\$ 91,817</u>	<u>\$ 28,702</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**SCHEDULE OF BONDED INDEBTEDNESS
ISSUE DATED NOVEMBER 1, 1999 AT JUNE 30, 2007**

<u>MATURITY DATE</u>	<u>PRINCIPAL</u>	<u>RATE</u>	<u>INTEREST AMOUNT</u>	<u>TOTAL</u>
11/1/2006			\$ 1,838	\$ 1,838
Current year payment			(1,838)	(1,838)
5/1/2007	\$ 75,000	4.90%	1,838	76,838
Current year payment	(75,000)		(1,838)	(76,838)
	<u>\$ -</u>		<u>\$ -</u>	<u>\$ -</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Owendale-Gagetown Area School District
Owendale and Gagetown, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owendale-Gagetown Area School District, Owendale, Michigan as of and for the year ended June 30, 2007, which collectively comprise Owendale-Gagetown Area School District's basic financial statements, and have issued our report thereon dated October 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owendale-Gagetown Area School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Owendale-Gagetown Area School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Owendale-Gagetown Area School District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Owendale-Gagetown Area School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Owendale-Gagetown Area School District's financial statements that is more than inconsequential will not be prevented or detected by Owendale-Gagetown Area School District's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting. (2007-1, 2007-2)

(Continued)

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Owendale-Gagetown Area School District's internal control.

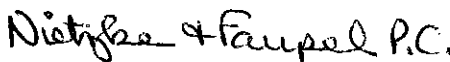
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Owendale-Gagetown Area School District financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of Owendale-Gagetown Area School District in a separate letter dated October 11, 2007.

This report is intended solely for the information and use of management, the Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

October 11, 2007

OWENDALE-GAGETOWN AREA SCHOOL DISTRICT

SCHEDULE OF FINDINGS FOR THE YEAR ENDED JUNE 30, 2007

- 2007-1 Due to the limited number of people working in the office, many crucial duties are combined and given to the available employees. Presently, a single individual prepares checks, reconciles bank accounts, performs all payroll duties as well as maintains the general ledger. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system possible. We recommend the District segregate bank account reconciliation duties from cash receipts and/or cash disbursements duties.
- 2007-2 The personnel of Owendale-Gagetown Area School District have the capability to perform monthly internal accounting functions and reports as required by management. The personnel of Owendale-Gagetown Area School District do not have the internal expertise to prepare the annual financial statements and related footnotes in accordance with the method of accounting utilized in the external audit report. We believe this meets the definition of a material weakness under Statement on Auditing Standard #112.

October 11, 2007

To the Board of Education of the
Owendale-Gagetown Area Schools
Owendale, Michigan

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of the Owendale-Gagetown Area Schools for the year ended June 30, 2007 and are submitted for your evaluation and consideration. We would like to emphasize that our audit was conducted for the purpose of expressing opinions on the aforementioned financial statements; therefore, the following comments are not necessarily all-inclusive.

Investment policy under GASB 40:

During the course of our audit, it was noted that the School Board has not amended their investment policy to address the various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the School's funds. These resources are necessary for the delivery of the Association's services programs. GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Association's ability to provide services and meet its obligations as they become due.

We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Association's financial statements by GASB Statement No. 40.

Budget Violations:

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2007, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
General fund			
Preschool	\$ 38,016	\$ 55,715	\$17,699
High school	646,605	649,407	2,802
Special education	87,172	88,227	1,055
Compensatory education	63,423	63,681	258
At risk	47,306	47,407	101
Improvement of instruction	32,365	32,369	4
Guidance services	23,732	23,948	216
Business services	3,166	8,166	5,000
Debt service	5,740	14,629	8,889
Transfers to other funds	47,309	53,242	5,933
Athletic fund	82,869	83,042	173
Food service fund	109,405	109,783	378

New Auditing Standards:

Recently, 9 new auditing standards have been released and will become effective over the District's next fiscal year. In reviewing the new standards, we do not believe, for the most part, they will have a significant impact on our overall audit approach.

The above recommendations are being made in an effort to improve the School's system of record keeping. If you have any questions regarding these recommendations, please contact us.

Nietzke & Faupel P.C.

Nietzke & Faupel, PC
Sebewaing, Michigan

Communication of Significant Deficiencies and Material Weaknesses

October 11, 2007

To the Board of Education of
Owendale-Gagetown Area Schools,

In planning and performing our audit of the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of Owendale-Gagetown Area Schools as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Owendale-Gagetown Area Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Segregation of Duties:

Due to the limited number of people employed by Owendale-Gagetown Area Schools, many critical duties are combined and given to the administrative assistant. Presently, a single individual prepares the bank deposits and cash disbursements, reconciles bank accounts, as well as maintains the general ledger. Employees who have both custodial and record keeping responsibilities for the same asset create a significant internal control weakness. Also, the employees' time cards are reviewed by an individual outside of the separate departments.

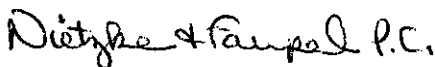
While we understand that a complete segregation of duties is impractical for a small school with limited personnel, we believe that some relatively minor changes could be made which would significantly improve controls. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible. The disbursement policy of requiring two individuals to sign the checks is an effective control that the school already has in place, but we would recommend the individual who prepares the checks does not have the authority to sign them. We suggest that the cash custody duties be separated from the record keeping duties if possible. One individual on the school's staff could prepare the school's receipts while another prepares the bank deposits and the administrative assistant continues to prepare the bank reconciliations. As an additional check, the school board's treasurer could review the check book, bank statement and computer detail reports each month. We would also recommend that each supervisor (i.e.-hot lunch, maintenance department) review the time cards for their staff and then the administrative assistant would still prepare the paychecks and a separate individual would continue to physically distribute the paychecks.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The AICPA Auditing Standards Board issued Statements on Audit Standards (SAS) 112 which establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting and is effective for periods ending after December 15, 2006. According to SAS 112, it is considered to be a control deficiency if a client we are auditing has ineffective controls over the preparation of their financial statements such that client controls are absent or controls are not effective in preventing or detecting material misstatements in the preparation of the financial statements, including the related footnotes.

The personnel of Owendale-Gagetown Area Schools have the capability to perform monthly internal accounting functions and reports as required by management with the exception of recording standard monthly journal entries. The personnel of Owendale-Gagetown Area Schools do not have the expertise to prepare the annual financial statements and related footnotes in accordance with the method of accounting utilized in the external audit report. We believe this meets the definition of a material weakness under Statement on Auditing Standards 112. We would recommend that the administrative assistant begin preparing and recording standard monthly journal entries as considered necessary.

This communication is intended solely for the information and use of management, the Board of Education of Owendale-Gagetown Area Schools, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.


Nietzke & Faupel, PC

October 11, 2007